

TOWN OF ANNABELLA, UTAH
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2005

TOWN OF ANNABELLA, UTAH

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FINANCIAL SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Honorable Town Council
The Town of Annabella
Annabella, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Annabella, Utah as of and for the year ended June 30, 2005 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Annabella, Utah as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of the Town of Annabella, Utah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents and budgetary comparison information on page 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Annabella, Utah's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Annabella, Utah. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



WILSON & COMPANY
Certified Public Accountants

September 1, 2005
Cedar City, Utah

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion of the Town of Annabella (Town) financial performance provides an overview of the Town's financial activities for the year ending June 30, 2005. This report is in conjunction with the Town's financial statements.

Financial Highlights

The assets of the Town exceeded its liabilities as of the close of the most recent year by \$1,630,540 (*net assets*). Of this amount, \$164,692 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets decreased by \$6,824. The revenues met or exceeded the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts.

At the close of the current year, the Town government funds reported combined ending fund balances of \$139,004, a decrease of \$16,195 in comparison with the prior year. Of this total amount, \$139,004 is available for spending at the government's discretion (*unreserved fund balance*).

The Town's total debt decreased by \$24,653 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Town finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, highways & streets, sanitation, senior center and culture and recreation. The business-type activities of the Town are water and irrigation services.

Fund financial statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and enterprise funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The Town adopts an annual appropriated budget for its governmental fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with those budgets.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary funds

The Town maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water and irrigation service operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and irrigation services which are considered major funds of the Town.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning The Town.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$1,630,540 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (84 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the year, the Town is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Town of Annabella's Net Assets

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Current & other assets	161,283	177,096	165,374	129,557
Capital assets	185,284	171,024	1,687,506	1,725,695
Total assets	<u>346,567</u>	<u>348,120</u>	<u>1,852,880</u>	<u>1,855,252</u>
Long-term Liabilities outstanding			512,574	536,654
Other liabilities	22,279	21,898	6,505	7,459
Total liabilities	<u>22,279</u>	<u>21,898</u>	<u>519,079</u>	<u>544,113</u>
Net assets:				
Invested in cap. assets, net of debt	185,284	171,024	1,174,932	1,189,041
Restricted capital projects	21,344			
Restricted debt service			37,587	
Restricted other purposes			46,701	
Unrestricted	117,660	155,198	47,032	122,098
Total net assets	<u>324,288</u>	<u>326,222</u>	<u>1,306,252</u>	<u>1,311,139</u>

Changes in Town of Annabella's Net Assets

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Revenues:				
Program revenues				
Charges for services	41,199	40,165	108,567	108,510
Operating grants and contributions	27,507	31,699	2,240	634
General revenues				
Property taxes	15,965	15,813		
General sales and use taxes	50,932	45,859		
Fees-in-lieu of taxes	5,506	5,166		
Earnings on investments	4,239	2,329	2,500	2,131
Connection Fees			1,872	4,750
Impact fees			4,800	18,250
Miscellaneous	1,685	127		
Total revenues	147,033	141,158	119,979	134,275
Expenses:				
General government	45,674	41,563		
Highways & streets	59,411	59,525		
Sanitation	28,487	35,684		
Culture & recreation	15,397	17,363		
Water fund			88,507	79,077
Irrigation Fund			36,360	53,103
Total expenses	148,969	154,135	124,867	132,180
Increase (decrease) in net assets	(1,936)	(12,977)	(4,888)	2,095

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental funds

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *unreserved fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. At the end of the current year, unreserved fund balance of the general fund was \$90,111, which is the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Proprietary funds

The Town's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water service fund at the end of the year amounted to (\$38,899) and for the irrigation fund was \$85,931.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$49,275 can be briefly summarized as follows:

\$1,730 decrease in general government
\$ 950 increase in highways & streets
\$ 2,000 decrease in sanitation
\$ 12,055 increase in culture & recreation
\$ 40,000 increase in transfers out to capital projects.

Of this increase, \$49,275 was funded out of prior year unreserved fund balance. During the year, however, actual revenues were more than budgeted revenues by \$4,547, and actual expenditures were less than budgeted expenditures by \$18,602.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$185,284 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings and equipment.

Additional information on the Town's capital assets can be found in the notes to the financial statements.

Long-term debt

At the end of the current year, the Town had total debt outstanding of \$512,574. The debt represents bonds issued to finance water and irrigation projects in prior years.

Additional information on the Town's long-term debt can be found in the notes of the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Town of Annabella, 90 North Main, Annabella, Utah, 84711.

BASIC FINANCIAL STATEMENTS

TOWN OF ANNABELLA, UTAH

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash & cash equivalents	\$ 141,372	\$ 127,946	\$ 269,318
Accounts receivable	4,311	9,879	14,190
Property tax receivable	15,600		15,600
Capital assets, net of accumulated depreciation	185,284	1,687,506	1,872,790
Total assets	<u>346,567</u>	<u>1,825,331</u>	<u>2,171,898</u>
Liabilities and Net Assets			
Liabilities :			
Accounts payable	3,719	1,277	4,996
Payroll taxes payable	1,841		1,841
Wages payable	1,119	978	2,097
Accrued Interest payable		3,953	3,953
Other payables	-	297	297
Deferred revenue property tax	15,600		15,600
Bonds payable			
Portion due within one year		25,254	25,254
Portion due after one year		487,320	487,320
Total liabilities	<u>22,279</u>	<u>519,079</u>	<u>541,358</u>
Net Assets:			
Invested in capital assets, net of related debt	185,284	1,174,932	1,360,216
Restricted for:			
Capital projects	21,344		21,344
Debt service		37,587	37,587
Other purposes		46,701	46,701
Unrestricted	117,660	47,032	164,692
Total net assets	<u>\$ 324,288</u>	<u>\$ 1,306,252</u>	<u>\$ 1,630,540</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Statement of Activities
Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 45,674	\$ 7,309	\$ 197	\$ -	\$ (38,168)
Highways & streets	59,411		27,310		(32,101)
Sanitation	28,487	33,890			5,403
Culture & recreation	15,397				(15,397)
Total governmental activities	148,969	41,199	27,507	-	(80,263)
Business-type activities:					
Water Fund	88,507	61,731	2,240		(24,536)
Irrigation Fund	36,360	46,836			10,476
Total business-type activities	124,867	108,567	2,240	-	(14,060)
Total government	\$ 273,836	\$ 149,766	\$ 29,747	\$ -	\$ (94,323)

(Continued on page 12)

TOWN OF ANNABELLA, UTAH
Statement of Activities
Year Ended June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue from previous page	\$ (80,263)	\$ (14,060)	\$ (94,323)
General revenues:			
Taxes:			
Property taxes	15,965		15,965
Fees-in-lieu of taxes	5,506		5,506
General sales and use taxes	50,932		50,932
Earnings on investments	4,239	2,500	6,739
Connection Fees		1,872	1,872
Impact fees		4,800	4,800
Miscellaneous	1,685		1,685
Total general revenues and transfers	78,327	9,172	87,499
Increase (decrease) in net assets	(1,936)	(4,888)	(6,824)
Net assets - beginning	326,224	1,311,140	1,637,364
Net assets - ending	<u>\$ 324,288</u>	<u>\$ 1,306,252</u>	<u>\$ 1,630,540</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

TOWN OF ANNABELLA, UTAH
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash & cash equivalents	\$ 92,479	\$ 48,893	\$ 141,372
Other receivables	4,311		4,311
Total assets	<u>\$ 96,790</u>	<u>\$ 48,893</u>	<u>\$ 145,683</u>
Liabilities:			
Accounts payable	\$ 3,719	\$ -	\$ 3,719
Payroll taxes payable	1,841		1,841
Wages payable	1,119		1,119
Total liabilities	<u>6,679</u>	<u>-</u>	<u>6,679</u>
Fund balances:			
Reserved			-
Unreserved, undesignated	90,111	48,893	139,004
Total fund balances	<u>90,111</u>	<u>48,893</u>	<u>139,004</u>
Total liabilities and fund balances	<u>\$ 96,790</u>	<u>\$ 48,893</u>	<u>\$ 145,683</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 139,004
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$355,495 and the accumulated depreciation is \$170,211.	185,284
Total net assets - governmental activities	<u><u>\$ 324,288</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 72,403	\$ -	\$ 72,403
Interest earnings	3,754	36	3,790
Licenses and permits	2,816		2,816
Intergovernmental revenues	27,508	-	27,508
Charges for services	35,710	450	36,160
Miscellaneous revenues	4,356		4,356
Total revenues	<u>146,547</u>	<u>486</u>	<u>147,033</u>
EXPENDITURES:			
General government	40,542	-	40,542
Highways & streets	54,104	-	54,104
Sanitation	28,487	-	28,487
Culture & recreation	10,265	-	10,265
Capital outlay		29,830	29,830
Total expenditures	<u>133,398</u>	<u>29,830</u>	<u>163,228</u>
Excess of revenues over (under) expenditures	<u>13,149</u>	<u>(29,344)</u>	<u>(16,195)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in		40,000	40,000
Operating transfers out	(40,000)	-	(40,000)
Sale of fixed assets			
Total other financing sources (uses)	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(26,851)	10,656	(16,195)
FUND BALANCES JULY 1	116,962	38,237	155,199
FUND BALANCES JUNE 30	<u>\$ 90,111</u>	<u>\$ 48,893</u>	<u>\$ 139,004</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (16,195)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	29,830	
Depreciation expense	<u>(15,571)</u>	
		14,259

Change in net assets of governmental activities	<u>\$ (1,936)</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Statement of Net Assets
Major Proprietary Funds
June 30, 2005

	Water Fund	Irrigation Fund	Total
Assets			
Current assets:			
Cash & cash equivalents	\$ 24,233	\$ 103,713	\$ 127,946
Accounts receivable (net of allowance)	5,523	4,356	9,879
Total current assets	<u>29,756</u>	<u>108,069</u>	<u>137,825</u>
Long-term assets:			
Capital assets, net of accumulated depreciation	1,225,168	462,338	1,687,506
Total long-term assets	<u>1,225,168</u>	<u>462,338</u>	<u>1,687,506</u>
Total assets	<u>1,254,924</u>	<u>570,407</u>	<u>1,825,331</u>
Liabilities and Net Assets			
Liabilities :			
Current liabilities:			
Accounts payable	638	639	1,277
Accrued Interest payable	1,205	2,748	3,953
Wages payable	489	489	978
Other payables	297		297
Bonds payable within one year	15,254	10,000	25,254
Total current liabilities	<u>17,883</u>	<u>13,876</u>	<u>31,759</u>
Long-term liabilities:			
Bonds payable after one year	340,320	147,000	487,320
Total long-term liabilities	<u>340,320</u>	<u>147,000</u>	<u>487,320</u>
Total liabilities	<u>358,203</u>	<u>160,876</u>	<u>519,079</u>
Net assets:			
Invested in capital assets, net of related debt	869,594	305,338	1,174,932
Restricted for:			
Debt service	37,587		37,587
Other purposes	28,439	18,262	46,701
Unrestricted	(38,899)	85,931	47,032
Total net assets	<u>\$ 896,721</u>	<u>\$ 409,531</u>	<u>\$ 1,306,252</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Statement of Revenues, Expenses and Changes in Net Assets
Major Proprietary Funds
Year Ended June 30, 2005

	Water Fund	Irrigation Fund	Total
Operating revenues:			
Net revenue	\$ 61,731	\$ 46,836	\$ 108,567
Total operating revenues	61,731	46,836	108,567
Operating expenses:			
Salaries & Employee Benefits	17,134	14,681	31,815
Materials and Supplies	6,017	1,485	7,502
Utilities	5,537	3,560	9,097
Contracted Services	1,670	830	2,500
Insurance	6,960		6,960
Other	6,182	1,116	7,298
Depreciation	29,155	9,035	38,190
Total operating expenses	72,655	30,707	103,362
Operating income (loss)	(10,924)	16,129	5,205
Nonoperating income:			
Interest Revenue	1,760	740	2,500
Connection Fees	1,872		1,872
Impact Fees	4,800		4,800
Other Revenue	2,240		2,240
Interest Expenses	(15,852)	(5,653)	(21,505)
Total nonoperating income	(5,180)	(4,913)	(10,093)
Net income (loss) before transfers	(16,104)	11,216	(4,888)
Transfer in			
Change in net assets	(16,104)	11,216	(4,888)
Net assets - beginning	912,825	398,315	1,311,140
Net assets - ending	<u>\$ 896,721</u>	<u>\$ 409,531</u>	<u>\$ 1,306,252</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
Statement of Cash Flows
Major Proprietary Funds
Year Ended June 30, 2005

	Water Fund	Irrigation Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 61,213	46,612	\$ 107,825
Cash payments to suppliers for goods and services	(26,695)	(7,143)	(33,838)
Cash payments to employees for services	(17,248)	(14,795)	(32,043)
Net cash provided (used) by operating activities	<u>17,270</u>	<u>24,674</u>	<u>41,944</u>
Cash flows from noncapital financing activities:			
Operating transfers from other funds			-
Net cash (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Cash received from impact fees	4,800	-	4,800
Cash received from connection fees	1,872	-	1,872
Other receipts (payments)	2,240	-	2,240
Interest paid on capital debt	(15,940)	(5,810)	(21,750)
Principal paid on capital debt	(15,080)	(9,000)	(24,080)
Acquisition of capital assets	-	-	-
Net cash (used) by capital and related activities	<u>(22,108)</u>	<u>(14,810)</u>	<u>(36,918)</u>
Cash flows from investing activities			
Interest received	1,760	740	2,500
Net cash (used) by investing activities	<u>1,760</u>	<u>740</u>	<u>2,500</u>
Net increase in cash and cash equivalents	<u>(3,078)</u>	<u>10,604</u>	<u>7,526</u>
Cash and Cash Equivalents - Beginning	<u>27,311</u>	<u>93,109</u>	<u>120,420</u>
Cash and Cash Equivalents - Ending	<u>\$ 24,233</u>	<u>\$ 103,713</u>	<u>\$ 127,946</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (10,924)	16,129	\$ 5,205
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			-
Depreciation expense	29,155	9,035	38,190
Increase decrease accounts receivable	(518)	(224)	(742)
Increase decrease in accounts payable	(339)	(152)	(491)
Increase decrease in wages payable	(114)	(114)	(228)
Increase decrease in other payables	10	-	10
Total adjustments	<u>28,194</u>	<u>8,545</u>	<u>36,739</u>
Net cash provided (used) by operating activities	<u>\$ 17,270</u>	<u>\$ 24,674</u>	<u>\$ 41,944</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Annabella have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The accompanying basic financial statements present the financial position of various fund types and account groups and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

A. Reporting Entity

For financial reporting purposes, the Town of Annabella has included all funds and account groups. The Town has also considered all potential component units for which it is financially accountable and that exclusion would cause the Town's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Town to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Town.

Based on the above criteria, the Town has no component units and is not a component unit of any other government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C: Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town of Annabella considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the Town's water distribution system.

The Irrigation Fund accounts for the activities of the Town's irrigation system.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D: Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 Years
Improvements Other Than Buildings	20 Years
Equipment	5 Years

As allowed by GASB Statement 34, the Town has elected to report infrastructure on a prospective basis.

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences:

The Town has a policy which allows employees to accumulate vacation pay. The Town allows vacation days to accumulate up to a maximum of 14 days for full time employees and 7 days for part-time employees, payable at termination.

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cost of capital assets	\$ 355,495
Accumulated depreciation	<u>(170,211)</u>
Total difference	<u><u>\$ 185,284</u></u>

B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net differences, the elements of this difference are as follows:

Capital outlay	\$ 29,830
Depreciation expense	<u>(15,571)</u>
Net difference as reported	<u><u>\$ 14,259</u></u>

F: Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G: Property Tax:

Sevier County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The Town should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30 of each year. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 15 of the following year, delinquent taxes and penalty bear interest of 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H: Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the Town in its governmental funds, therefore, all annual appropriations lapse at fiscal year end.

The Town can make adjustments to the adopted budget through public hearings. During the fiscal year, the Town made budget adjustments through public hearings the effects of which were material and are reflected in management's discussion and analysis.

I: Statement of Cash Flows:

For the purpose of the Statement of Cash Flows, the Water and Irrigation Utility Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2: CASH AND INVESTMENTS

The Town maintains a cash and investment pool, which includes the cash account and several investments.

The Town's deposit and investment policy is to follow the Utah Money Management Act. However, the Town does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the Town is exposed.

Utah State law requires that Town funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the Town and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2005, the Town had the following deposits and investments:

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 2: CASH AND INVESTMENTS - CONTINUED

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 10,508
State Treasurer's investment pool	<u>258,810</u>
	<u>\$ 269,318</u>

Interest rate risk. The Town manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2005 the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit Risk. The Town's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005 none of the deposits was exposed to custodial credit risk because it was uninsured or uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. The Town's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:	
Cash on hand	\$ 200
Cash on deposit	10,308
Utah State Treasurer's investment pool account	<u>258,810</u>
Total cash and investments	<u>\$ 269,318</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	<u>\$ 269,318</u>
Total cash and investments	<u>\$ 269,318</u>

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 20,000	\$	\$	\$ 20,000
Total capital assets, not being depreciated	20,000			20,000
Capital assets, being depreciated:				
Buildings & Improvement	228,012	29,830		257,842
Machinery & Equipment	77,653			77,653
Total capital assets, being depreciated	305,665	29,830		335,495
Accumulated depreciation for:				
Building & Improvements	106,822	9,032		115,854
Machinery & Equipment	47,819	7,765	(1,227)	54,357
Total accumulated depreciation	154,641	16,797	(1,227)	170,211
Total capital assets, being depreciated, net	151,024	13,033	1,227	165,284
Governmental activities capital assets, net	<u>\$ 171,024</u>	<u>\$ 13,033</u>	<u>\$ 1,227</u>	<u>\$ 185,284</u>
Business type activities:				
Capital assets, not being depreciated				
Land	\$ 238,380			\$ 238,380
Total capital assets, not being depreciated	238,380			238,380
Capital assets, being depreciated:				
Buildings	34,307			34,307
Improvements other than buildings	1,857,362			1,857,362
Machinery & Equipment	14,132			14,132
Total capital assets, being depreciated	1,905,801			1,905,801

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 3. CAPITAL ASSETS - CONTINUED

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Accumulated depreciation for:				
Buildings	8,542	858		9,400
Improvements other than buildings	396,326	37,159		433,485
Machinery & Equipment	<u>13,618</u>	<u>172</u>		<u>13,790</u>
Total accumulated depreciation	<u>418,486</u>	<u>38,189</u>		<u>456,675</u>
Total capital assets, being depreciated, net	<u>1,487,315</u>	<u>38,189</u>		<u>1,449,126</u>
Business type activities capital assets, net	<u>\$ 1,725,695</u>	<u>\$ (38,189)</u>	<u>\$</u>	<u>\$ 1,687,506</u>

Depreciation was charged to governmental activities functions as follows:

General government	\$ 5,132
Highways & Streets	5,307
Culture & recreation	<u>5,132</u>
Total	<u>\$ 15,571</u>

NOTE 4. CHANGES IN LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Town for the fiscal year ended June 30, 2005:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Revenue Bonds	\$ 536,654		\$ 24,080	\$ 512,574
	<u>\$ 536,654</u>		<u>\$ 24,080</u>	<u>\$ 512,574</u>

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED:

\$130,000 Water Revenue Bond Series 2001

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 4,754	\$ 2,830	\$ 7,584
2007	4,997	2,587	7,584
2008	5,253	2,331	7,584
2009	5,521	2,063	7,584
2010	5,804	1,780	7,584
2011	6,101	1,483	7,584
2012	6,413	1,171	7,584
2013	6,741	843	7,584
2014	7,086	498	7,584
2015	2,525	102	2,627
Total	<u>\$ 55,195</u>	<u>\$ 15,688</u>	<u>\$ 70,883</u>

\$250,000 Irrigation Revenue Bond Series 1992

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 10,000	\$ 5,495	\$ 15,495
2007	10,000	5,145	15,145
2008	10,000	4,795	14,795
2009	11,000	4,445	15,445
2010	11,000	4,060	15,060
2011	12,000	3,675	15,675
2012	12,000	3,255	15,255
2013	12,000	2,835	14,835
2014	13,000	2,415	15,415
2015	13,000	1,960	14,960
2016	14,000	1,505	15,505
2017	14,000	1,015	15,015
2018	15,000	525	15,525
Total	<u>\$ 157,000</u>	<u>\$ 41,125</u>	<u>\$ 198,125</u>

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED:

**\$100,000 Parity Water Revenue Bond
Series 1999A**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 4,000	\$ 2,352	\$ 6,352
2007	4,000	2,234	6,234
2008	5,000	2,117	7,117
2009	5,000	1,970	6,970
2010	5,000	1,823	6,823
2011	5,000	1,676	6,676
2012	5,000	1,529	6,529
2013	5,000	1,382	6,382
2014	5,000	1,235	6,235
2015	6,000	1,088	7,088
2016	6,000	911	6,911
2017	6,000	735	6,735
2018	6,000	559	6,559
2019	6,000	382	6,382
2020	7,000	206	7,206
Total	<u>\$ 80,000</u>	<u>\$ 20,199</u>	<u>\$ 100,199</u>

**\$35,000 Water Revenue Bonds
Series 1996**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 3,876	\$ 116	\$ 3,992
Total	<u>\$ 3,876</u>	<u>\$ 116</u>	<u>\$ 3,992</u>

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED:

\$228,000 Parity Water Revenue Bond
Series 1999B

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 2,625	\$ 10,239	\$ 12,864
2007	2,752	10,112	12,864
2008	2,886	9,978	12,864
2009	3,026	9,838	12,864
2010	3,173	9,691	12,864
2011	3,327	9,537	12,864
2012	3,488	9,376	12,864
2013	3,657	9,207	12,864
2014	3,835	9,029	12,864
2015	4,021	8,843	12,864
2016	4,216	8,648	12,864
2017	4,421	8,443	12,864
2018	4,636	8,228	12,864
2019	4,864	8,000	12,864
2020	5,094	7,770	12,864
2021	5,344	7,520	12,864
2022	5,604	7,260	12,864
2023	5,876	6,988	12,864
2024	6,161	6,703	12,864
2025	6,460	6,404	12,864
2026	6,774	6,090	12,864
2027	7,102	5,762	12,864
2028	7,447	5,417	12,864
2029	7,809	5,055	12,864
2030	8,188	4,676	12,864
2031	8,585	4,279	12,864
2032	9,002	3,862	12,864
2033	9,439	3,425	12,864
2034	9,897	2,967	12,864
2035	10,378	2,486	12,864
2036	10,882	1,982	12,864
2037	11,410	1,454	12,864
2038	11,964	900	12,864
2039	12,160	693	12,853
Total	<u>\$ 216,503</u>	<u>\$ 220,862</u>	<u>\$ 437,365</u>

TOWN OF ANNABELLA, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 5. DEFINED BENEFIT PENSION PLAN

Plan Description: The Town of Annabella, Utah contributes to the Local Governmental Noncontributory Retirement System which is part of the cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety and Firefighters Retirement Systems for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 So. Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy: In the Local Governmental Noncontributory Retirement System the Town of Annabella, Utah is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Town of Annabella, Utah contributions to the Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$3,127, \$2,713 and \$2,732 respectively. The contributions were equal to the required contributions for each year.

NOTE 6. RISK MANAGEMENT

The Town of Annabella, Utah is subject to various types of risk such as tort actions, theft, damage, or destruction of assets by intent or acts of God, and job related illnesses or injury.

The Town has procured commercial insurance coverage and Workman's Compensation Insurance which in the Town's estimation, is adequate to reduce the risk of loss to a manageable level..

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

TOWN OF ANNABELLA, UTAH
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 116,962	\$ 116,962	\$ 116,962	\$ -
Resources (inflows):				
Taxes	67,175	66,500	72,403	5,903
Interest earnings	2,700	2,500	3,754	1,254
Licenses and permits	2,750	3,200	2,816	(384)
Intergovernmental revenues	32,050	32,000	27,508	(4,492)
Charges for services	35,100	34,500	35,710	1,210
Miscellaneous revenues	2,950	3,300	4,356	1,056
Amounts available for appropriation	259,687	258,962	263,509	4,547
Charges to appropriations (outflows):				
General government	40,275	38,545	40,542	(1,997)
Highways & streets	54,300	55,250	54,104	1,146
Sanitation	33,500	31,500	28,487	3,013
Culture & recreation	14,650	26,705	10,265	16,440
Transfer out	-	40,000	40,000	-
Total charges to appropriations	142,725	192,000	173,398	18,602
Budgetary fund balance, June 30	\$ 116,962	\$ 66,962	\$ 90,111	\$ 23,149

The notes to the financial statements are an integral part of this statement.

**COMBINING FINANCIAL STATEMENTS
AND SCHEDULES**

TOWN OF ANNABELLA, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Capital Project Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
Assets:			
Cash & cash equivalents	\$ 21,344	\$ 27,549	\$ 48,893
Total assets	<u>\$ 21,344</u>	<u>\$ 27,549</u>	<u>\$ 48,893</u>
Fund balances:			
Reserved			
Unreserved, undesignated	\$ 21,344	\$ 27,549	\$ 48,893
Total fund balances	<u>21,344</u>	<u>27,549</u>	<u>48,893</u>
Total liabilities and fund balances	<u>\$ 21,344</u>	<u>\$ 27,549</u>	<u>\$ 48,893</u>

TOWN OF ANNABELLA, UTAH
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	<u>Capital Project Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Nonmajor Governmental Funds</u>
REVENUES:			
Interest earnings	\$ 36	\$ -	\$ 36
Intergovernmental revenues			
Charges for services		450	450
Miscellaneous			
Total Revenues	<u>36</u>	<u>450</u>	<u>486</u>
EXPENDITURES:			
General government			
Highways & streets			
Sanitation			
Culture & recreation			
Capital outlay	29,830		29,830
Total Expenditures	<u>29,830</u>		<u>29,830</u>
Excess of Revenues over (under) Expenditures	<u>(29,794)</u>	<u>450</u>	<u>(29,344)</u>
OTHER FINANCING SOURCES (USES):			
Debt proceeds			
Operating transfers in	40,000		40,000
Operating transfers out			
Sale of fixed assets			
Total Other Financing Sources (Uses)	<u>40,000</u>		<u>40,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	10,206	450	10,656
FUND BALANCES JULY 1	11,138	27,099	38,237
FUND BALANCES JUNE 30	<u>\$ 21,344</u>	<u>\$ 27,549</u>	<u>\$ 48,893</u>

COMPLIANCE SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Town Council
Town of Annabella
Annabella, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Annabella, Utah as of and for the year ended June 30, 2005, which collectively comprise the Town of Annabella, Utah's basic financial statements and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Annabella, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Town of Annabella, Utah in a separate letter dated October 28, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Annabella, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

Town of Annabella, Utah
Page 2

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the Town of Annabella, Utah in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of the management of the Town of Annabella, Utah, and applicable federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
September 1, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

TOWN OF ANNABELLA, UTAH AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS

For the Year Ended June 30, 2005

The Honorable Town Council
Town of Annabella
Annabella, Utah

We have audited the general purpose financial statements of the Town of Annabella, Utah, for the year ended June 30, 2005 and have issued our report thereon dated September 1, 2005. As part of our audit, we have audited the Town of Annabella's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Town received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)	\$ 27,310
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Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the Compliance manual for Audits of Local Governments in Utah including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Property Tax
- Liquor Law Enforcement
- Other Compliance Requirements

The management of the Town of Annabella, Utah is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis evidence about the Town's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

Town of Annabella, Utah
Page 2

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Town of Annabella, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of service allowed and unallowed; eligibility; matching, level of effort, or earmarking; reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
September 1, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

October 28, 2005

Honorable Mayor and Town Council
Town of Annabella
Annabella, Utah

We have examined the financial statements of the Town of Annabella, Utah for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. As part of our examination, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Town's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Town of Annabella, Utah is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Town of Annabella taken as a whole. However, our study and evaluation disclosed the following conditions that we believe require the Town's further attention.

Recording of Revenues

We noted in our exam that some minor revenues were misclassified such as motor carrier tax and liquor allotment.

We suggest that care be taken to properly classify all revenues.

State Compliance Issues - Budget

We noted during our exam that expenditures in the general government category exceeded the adopted budget for the General Fund.

Utah law requires the Town to limit expenditures to the adopted budget. The Town should closely monitor expenditures to ensure that they stay within the budget.

Water Fund

We noted during our exam that the Water Fund incurred a net loss from operations as well as incurring a loss after non-operating revenues and expenses.

We suggest the Town consider adjusting rates as needed to correct this situation. Enterprise funds should not sustain losses from year to year.

Fixed Asset Accounting System

We noted in our exam that the Town's fixed asset management system did not agree with the general ledger.

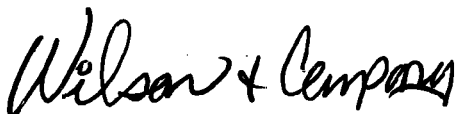
We suggest that the Town work with the Caselle fixed asset management system to ensure that it agrees with the town's general ledger.

The above conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination of the Town's June 30, 2005, financial statements.

Our comments are intended to be constructive in nature. The absence of positive or complimentary comments does not imply that the Town operates in an inefficient or ineffective manner. We welcome the opportunity to discuss these conditions in further detail and express our appreciation to the staff for their assistance during the examination.

This report is intended solely for the use of management and the Utah State Auditor and should not be used for any other purpose.

Sincerely,



WILSON & COMPANY
Certified Public Accountants
Cedar City, Utah

Town of Annabella

90 North Main, P.O. Box 175, Annabella, UT 84711
phone (435) 896-6571 • fax (435) 896-4369

Wilson & Company
360 West 300 North
Cedar City, UT 84720

November 7, 2005

The following information is provided in response to the report of audit and management letter provided to the Town Council for the fiscal year ended June 30, 2005:

Recording of Revenues

The audit found that the motor carrier tax and liquor allotment revenues were misclassified. Care will be taken to properly classify all revenues.

State Compliance Issues-Budget

The Town Council recognizes its duty to closely monitor the approved budget on a line item basis. The audit report found that the expenditures in the general government category exceeded the adopted budget for the General Fund. Line item expenditures will continue to be closely monitored in the future to ensure that they stay within the budget.

Water Fund

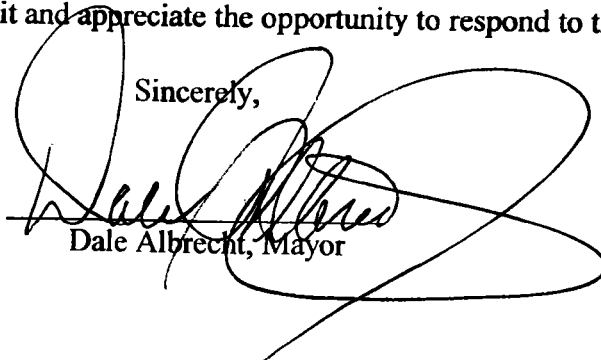
The audit report found that the Water Fund and incurred a net loss from operations as well as incurring a loss after non-operating revenues and expenses. The Town Council will discuss adjusting rates as needed to correct the situation.

Fixed Asset Accounting System

It was noted that the Town's fixed asset management system did not agree with the general ledger. The Town Clerk is working with Caselle to ensure that it is correct for next years audit.

We express our thanks to Wilson and Company for the work done in conducting Annabella Town's annual audit and appreciate the opportunity to respond to the management items raised.

Sincerely,



Dale Albrecht, Mayor

Town of Annabella

90 North Main, P.O. Box 175, Annabella, UT 84711
phone (435) 896-6571 • fax (435) 896-4369

Office of the State Auditor
Richard Moon
East Office Building, E310
PO Box 142310
~~Salt Lake City, Utah 84114-2310~~

November 28, 2005

Dear Mr. Moon:

We have received your notice requiring our entity to prepare and submit a written corrective action plan to address each area of budgetary noncompliance. The following information is provided in response to your request.

State Compliance Issues-Budget

The audit report for the fiscal year ending June 30, 2005 found that the expenditures in the general government category exceeded the adopted budget for the General Fund. In order to correct this problem, Town Council members receive a copy of the financial statement on a monthly basis. By doing so, the Council is able to monitor their budget closely and make adjustments where needed.

Water Fund

For the fiscal year ending June 30, 2004, the audit report suggested closely monitoring culinary water ~~fund revenues and expenditures~~. For the fiscal year June 30, 2005, the audit report found that the water fund incurred a net loss from operations as well as incurring a loss after non-operating revenues and expenses. In order to correct the problem, the Town Council will be discussing a water rate increase during the Town Council meeting to be held on December 14, 2005.

Recording of Revenues


The audit report found that the motor carrier tax and liquor allotment revenues were misclassified. Care is being taken to properly classify all revenues so misclassification will be avoided in the future.

Fixed Asset Accounting System

The audit found that the Town's fixed asset management system did not agree with the general ledger. Tina Mitchell, Town Clerk, is currently working with Jim Wilson of Wilson & Company, along with representatives from Caselle to ensure the fixed asset management system agrees with the general ledger. The fixed asset management system will be accurate by January 31, 2005.

We appreciate the opportunity to submit our correction action plan and anticipate that the areas of concern discussed in the correction action plan will not be an issue in upcoming years.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tina Mitchell", written over a horizontal line.

Tina Mitchell

Annabella Town Clerk